BUSINESS RESOURCE CENTRE

Retail Business Plan

90-02305/

RETAIL BUSINESS PLAN

SMALL BUSINESS MANAGEMENT SYSTEMS

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Preface

The purpose of this Business Resource publication is to help Manitobans who are planning to start retail business enterprises or who wish to re-assess the viability of an established enterprise. The help offered here is in the form of a guide to developing a Business Plan. It has been prepared by Manitobans for Manitobans so that its entire contents are applicable to the Manitoba business scene.

The four broad functions of managing a business have been identified as **Planning, Organizing, Directing** and **Controlling**. That Planning comes first is not accidental. It is the very foundation of a successful business because it illuminates the future in such a way as to help the entrepreneur avoid pitfalls and problems; gain self-confidence because he has a track to run on; and, give backers, lenders, suppliers and employees assurance of a solid approach to the conduct of the enterprise.

This guide is only one aspect of the assistance that the Business Resource Centre can give to Manitoba business owners and operators.

As you begin to study this guide, you are urged to be honest with yourself. Don't overlook anything. Dig out all the facts. Apply the four C's to your Plan.

Be **candid**	— you will only fool yourself if you are less than honest;
Be **comprehensive**	— examine every facet of your proposed business to make sure you don't overlook an important item;
Be **complete**	— thoroughness is a further step to comprehensiveness;
Be **competitive**	— keep in mind that there will be competition at every turn. In raising money. Getting good employees. Getting share of market. Be realistic.

The Business Plan

A Business Plan is a way of answering the question, "Where will my business be this time next year? Three years from now?"

For a contemplated or new business, a Business Plan can help determine what resources will be needed to ensure its success. It follows then, that if the required resources are not available, it would probably be unwise to launch the enterprise in the form in which it is currently conceived.

For a struggling existing business, a Business Plan can help measure the true condition of the business and reveal its weaknesses and strengths.

For the successful, established business, a Business Plan is equally necessary as a "track to run on" and a source of business information.

A Business Plan is based on assumptions, estimates and forecasts. Therefore, the Business Plan is a guide, a reminder and, to an important degree, a source of challenge.

The Business Plan proposed here has four main sections:

- Sales
- Costs
- Profitability
- Feasibility

Each section provides a step-by-step method for developing your projections. Essential ingredients are identified, examples are shown and worksheets provided for the corresponding figures for your proposed business. For purposes of the examples in this book, a men's clothing store has been used. The processes illustrated apply, of course, to any or all retail establishments.

Once you have completed your Plan, using the techniques suggested here and following the guidesheets (worksheets 1-7) you will have a systemically-prepared, extensive document from which each of the "stakeholders" in your business can make an objective assessment of its future prospects.

The "stakeholders" include:

- **You** — as the person who stands to lose the most if the business falters. To obtain a clear picture of your personal financial needs, complete the "Assessment of Personal Finances" on page 5.
- **Financial Backers** (including silent partners) — all businesses need financial support from outside (friends, relatives, entrepreneurs, bankers, etc.) and these lenders and investors seek assurance of the safety of their investments.
- **Sources of Help** — it is often necessary to turn to others for help in achieving your goals. Complete the "Self-Analysis Test" (see page 5). This will help you recognize where your own knowledge and skills should be supplemented by input from professionals and specialists such as lawyers, accountants, insurance agents, advertising agency, suppliers, educators. Some may help you in the preparation of your Business Plan; all will be more effective if they can see that you have put a lot of thought into your Plan.

Table A

ASSESSMENT OF PERSONAL FINANCES

My Financial Obligations	Amount (per month)
House Mortgage/Rent	
Family Food Bill	
Utility Bills	
Charge Account Spending (yourself and others)	
Operating Costs for Car(s)	
Personal Spending/Recreation	
Repairs to House	
Major Purchases (car, appliances, furniture, etc.)	
Other Expenses:	
Insurance (life, car, house)	
Medical/Dental	
Car Repairs	
Education (family)	
Taxes (property)	
Retirement Savings	
Seasonal Spending (e.g. Christmas)	
Other Expenses (specific to you)	
TOTAL	

	Amount (per month)
My needs per month are	
Other income per month is	
Will my business be able to meet such expenses?	
If not, should I withhold some of the money I expected to invest?	
Amount I expected to invest	
Amount I am now withholding	
New amount I expect to invest	
TOTAL	

Table B

PERSONAL SKILL AND KNOWLEDGE (Self-Analysis)

	Check (√) O.K.	Need Help
Financing		
I know how to analyse options.		
I understand financial jargon.		
I know how to control expenses.		
Marketing		
I am "customer-oriented".		
I am skilled in selling my product/service.		
I understand how to advertise and promote my product/service.		
Media advertising		
Display and Signs		
Premises layout		

	Check (√) O.K.	Need Help
Staffing		
I know the number of employees I need and the qualifications they must have.		
I am familiar with hiring practices and interviewing.		
I believe I can motivate my employees to high levels of productivity		
Buying		
I am trained and skilled in buying what customers want.		
I have good supplier contacts.		
I am aware of personal requirements.		
Accounting		
I know which records to keep and what information they should contain.		
I know how to interpret financial statements.		

Section 1 — Sales

There are two methods of making a realistic estimate of gross sales.

The first is called the "top down" method. You start by obtaining the total amount of sales of your particular kind of business in your market area. From this figure, by a series of calculations, you are able to estimate your probable gross sales.

The second method is called "bottom up". It is based on the average purchases of potential customers. Your gross sales figure evolves from factors common to your particular location.

Actually, it is wise to estimate your gross sales by both methods. If the two answers are close, you will be confident of the accuracy of the estimated figure. If not close, you will know that something is amiss. You may have miscalculated; you may have made an unsupported assumption; or, you may have omitted an important factor. Usually, however, the figures tend to converge the second time around. Above all, be honest and realistic about your estimates.

Let us go through the two methods step by step.

METHOD A — TOP DOWN

Step 1 — Your Market Area

What are the geographical boundaries of your market? Where are you doing business now or (for a new venture) going to do business? Town, neighborhood, entire city, province-wide, rural community? Get a map of the city or district and draw the boundaries of your basic market on it. You must also estimate the number of people (or family units) in your area. Statistics Canada has this type of information by Census Tract (Catalogue No. 95-173) for the City of Winnipeg and Census Sub-Division (Catalogue No. 94-113) for the rest of the province*. This information will be helpful. In addition, it would be a good idea to talk with some of the businessmen in the area to learn more about buying habits; find out the trends in population (increasing, constant or decreasing), economic levels, employment situation, etc. Talk to local government officials, advertising managers of local newspapers and broadcasting stations, and other citizens who are close to the community in which you will operate. (Note: Our general approach is to the person setting up a new business; the information is, however, useful to the owner of an established business, particularly if it is not achieving the desired results or is in danger of going under.) The accompanying table shows some population figures which can be added to the information you have gathered on your own.

Now, estimate the number of people that will be living in your market area over the next three years: the year you open (or expand or reorganize) your retail business, the year after and two years after. (Referred to as Year 1, Year 2, and Year 3.)

Figure 1

Retail (Men's Clothing) Sales Step 1 - No. of people in my Market Area (Determined by review of census figures and personal investigation in market area)

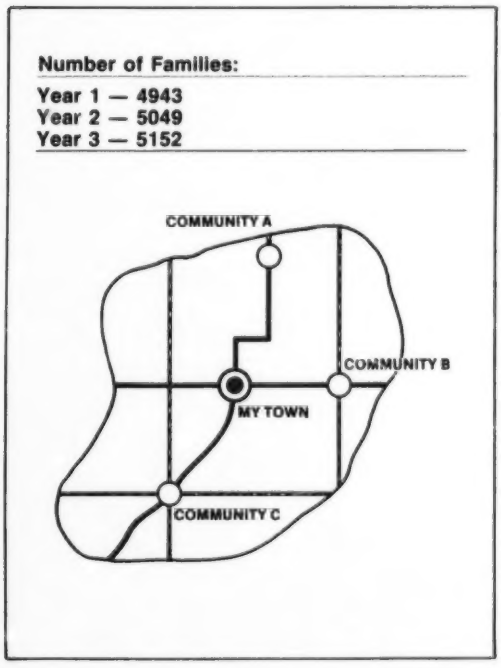


Table C

MANITOBA POPULATION

Metro Winnipeg	1988
Transcona	31,010
East Kildonan	70,721
East St. Paul	4,039
Fort Garry	48,092
St. Boniface	43,765
St. James	84,584
St. Vital	55,301
West Kildonan	47,310
West St. Paul	2,344
Wpg. Inner City	241,570
TOTAL	**628,716**
Areas of Manitoba	**1988**
Central	94,177
East Man.	84,088
Interlake	73,972
North Man.	77,003
Parkland	48,678
West Man.	118,810
TOTAL	**496,698**
TOTAL	**1,125,414**

Less precise but usable figures are available from Trade & Commerce Magazine and other private sources. (See also Table C above.)

Step 2 — Amount Bought Per Family

Business Plans for retail firms must answer three questions at this stage:

1. What items (goods) will be offered to the public?
2. How much of each line (in $) does the average family buy?
3. What is the average income in your market area?

Figure 2

Step 2 - Amount bought per Person (Retail Men's Clothing)

Item	Average Amount**
Men's wear (14 years and over)	$596.00

** The numbers quoted were obtained from Statistics Canada Catalogue #62-555 which provides data on Family Expenditures. Since these are based on 1986 data an inflation factor of 12% should be added to create a more realistic total, i.e. $596 × 112% = $667.*

The answer to the first question should be easy. The second and third may require some research. Some helpful information is provided here (see Appendix, I page 25) and more detailed information is available from Statistics Canada (Catalogue No. 62-555). The latest information available from Stats. Canada is for 1986. A source of market information that may be more current is the advertising department of a daily newspaper or the commercial department of a broadcasting station. If you have to use an estimate of average income, be sure the amount spent per person or per family does not increase substantially from one column to the next.

Finally, total the amount of each category the average person or family buys. This amount should represent what the average consumer spends on your types of merchandise.

As the statistics are for 1986, you should add a conservative amount to reflect the impact of inflation since that year.

**At the time this booklet was prepared.*

Step 3 — Total Market Potential

Next, multiply the answer from Step 1 by the answer from Step 2. The result will be the "total market potential for your type of merchandise in your market area".

Figure 3

Step 3 - Total Market Potential (Retail Men's Clothing)

	Year 1	Year 2	Year 3
Expected Population (Step 1)	4943	5049	5152
Amount spent per person, per year**	x $667	x $694	x $722
Total Market Potential	**$3,297,000**	**$3,504,000**	**$3,720,000**

*** A conservative increase of 4% per year has been shown; it is not wise to over-estimate sales projections.*

Step 4 — Your Market Share

The next step is to estimate the share of the market you might expect to have.

First, find out how many competitors you have in your market area.

For a retailer, (if there are fewer than ten competitors) find out the total amount of selling space devoted to your line(s) or services. What percentage is yours of the total?

$$\frac{\text{Your Space}}{\text{Total Space}} \times 100 = \text{Your \% Share}$$

To convert this to dollars, multiply this answer by the result you obtained for Step 3.

For retail establishments with more than ten competitors, simply divide the answer to Step 3 by the number of competitors plus one (you). This will give you an approximate share of market figure. (This is not a scientifically calculated figure and must be tempered by the reality of your situation. The presence of a dominating firm — such as a large department store — in your line or a number of long-established firms may mean that your initial estimate should be lowered.)

If the above results leave you still a bit uncertain, it is because all the steps have been "numbers oriented". No distinction was made between new and well-established competitors. Therefore, you should "weight your numbers" against the assumptions which were adopted in Steps 1-3.

It has been assumed that each of the following aspects or characteristics of your business is **as good as the average for your competitors**:

- location
- layout
- display
- advertising
- reputation
- selection (assortments)
- customer exposure
- knowledge of consumer wants and needs

Now, as a final review, imagine yourself as established and successful five years from now. Ask yourself this question, "Would a new competitor entering the field now get a full share of the market in the first year or two?" The answer is probably "No". Therefore, you should adjust your final market share according to your estimate of what a newcomer should **really** expect. Unless, of course, you have compelling reasons to support your expectation of a full share in the first year or so.

Figure 4

Step 4 - Market Share (Sales) - Retail Men's Clothing

I have 8 competitors in my market area and 5 competitors outside the area, all of whom effectively compete for a share of this market. With my business, there will be 14 competitors.

	Year 1	Year 2	Year 3
Total Market Potential (Step 3)	$3,297,000	$3,504,000	$3,720,000
Competing firms (14)	÷ 14	÷ 14	÷ 14
A competitor's full share	235,500	250,286	265,714
Percentage of full share I expect	x 80%	x 90%	x 100%
Expected annual sales	$ 188,400	$ 225,257	$ 265,714

METHOD B - BOTTOM UP

The "Bottom Up" method of estimating gross sales is based on potential customers.

For the retailer, the key numbers for this method come from what is called "traffic". How many people walk or drive past your location on an average day? You may wish to refine this to a study of certain periods on certain days. Check your findings against those of an established business. Ask what percentage of total passers-by actually enter the store or reception area. What percentage of them actually make a purchase? What is the average sale (if in your line of business)? Try to get a fix on this ratio, particularly if you are in a heavy pedestrian area such as a main street or a shopping mall. Don't be afraid to stand outside a potential competitor's shop and count heads.

If you can calculate the traffic rate for your operation and the probable average sale, you can then estimate sales in dollars.

The examples in figure 5 show how to do this. It is a relatively simple arithmetical calculation:

Number of passers-by x % who come in
= Number of browsers
Number of browsers x % who buy something
= Number of customers
Number of customers x % average sale per buyer
= Gross sales

This method, one must appreciate, has the most direct application to retail and service operations selling directly to customers who take advantage of easy accessibility. They also attract casual shoppers and impulse buyers. The business which must rely on telephone orders or must be located in a remote or low traffic area will need to find different ways of measuring potential customer volume.

Two additional questions to ask of those operating businesses similar to yours are:

1. How are sales distributed over the seasons and months of the year?
2. What percentage of annual sales are cash, credit card or receivables?

This information will be useful when making up a cash flow statement for your first year.

Again, the media representatives (newspaper/radio/T.V.) can help you with the answers to Question 1 above: For Question 2, your bank manager might also be helpful.

Figure 5

Method B - (Retail Men's Clothing)

No. of passers-by per day	1,350
Percentage who enter my store.	10%
No. who enter my store (browsers).	135
Percentage of browsers who buy.	33%
No. of customers per day.	45
Average sale.	$ 12.00
Average daily sales.	$540.00
Days open per year.	312
Annual sales (312 x $540.00)	**$168,400.00**

Since both methods have produced approximately the same sales figure, I feel safe in using $170,000, $185,000, and $200,000 for my annual sales estimates. (The above figure has been used for the sample Work Sheet, Figure 11. Enter your sales estimates on the blank Worksheet 4, line 1.)

Section 2 — Costs

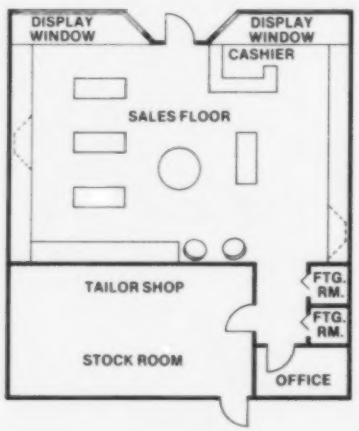
In many ways, this is the most important section. If you have done your homework, the estimates you obtain will be very close to what you will experience. Furthermore, if costs are accurately estimated, you can always work back to the number of sales required to break even. This may prove very encouraging and build your confidence in your undertaking.

There are five steps in this section.

Step 1 - Calculate cost of premises, equipment, fixturing.
Step 2 - Calculate direct expenses.
Step 3 - Calculate normal operating costs.
Step 4 - Calculate initial working capital requirements and principal and interest payments.
Step 5 - Calculate depreciation expense.

Figure 6

EXAMPLE OF A MEN'S CLOTHING STORE
Step 1: Building, Fixtures and Equipment



Since the premises are being leased, the costs are as follows:

Leasehold improvements (partitioning and decorating)	$ 3,500
Company purchases my vehicle (station wagon)	6,000
Fixtures (shelves, lights, rack, display fixtures, etc.)	10,000
Equipment (office furniture, safe, cash register, etc.)	2,500
TOTAL	**$22,000**

Step 1 — Cost of premises, equipment and fixturing

The premises you occupy are an important part of your Plan. Do you need a free-standing building, street frontage, small space or what? Do you want to buy or rent? Are you prepared to undertake extensive renovations? Does your business require unusual building characteristics (e.g. high ceilings, reinforced floors, loading docks, etc.)?

The decision regarding buy or rent may depend on availability and/or your financial capacity. You may have to erect your own building. The counsel of a reliable realtor will help you arrive at a decision upon which to estimate the cost of premises. You should keep in mind that you may be faced with some or all of these costs:

- upgrading parking facilities
- changing partitioning
- painting and decorating
- altering or installing signage
- upgrading floor coverage
- improving lighting
- other

You should also keep in mind the possibility of expansion. Should you take options on additional space or take more space than you need immediately and sub-let part of it?

If you decide that you can afford to construct a new building you should compare the cost of owning it with leasing it.

If you build your own, take all cost factors into consideration and obtain a firm estimate from the general contractor.

If you are leasing, your leasing costs will be readily known and firm. The costs of putting the space in shape to suit your needs will require careful estimating and this is an area where many a new venture fails to consider the real costs of fixing a place up. Things like painting, paving, plumbing, landscaping, partitioning, wiring, etc. can add up to substantial amounts.

The next cost item is equipment. This is so different for every line of business. Fixtures are part of this category, too.

You will know from the outset your basic equipment and fixture needs, without which you can't open for business. These will include counters, cash registers, shelving, display fixtures, desks, seating, shipping or delivery facilities, etc. No two businesses are alike in this respect. A very rough cost range for fixturing and leasehold improvements is $8.00 - $18.00 per square foot of selling space. To make a more accurate estimate of costs, follow the process outlined below and then ask your suppliers to "cost out" your Plan.

Cut out pieces of light card to scale to represent equipment and fixtures you **must** have. Then, using scaled floor areas, try to fit your items in. This will help you decide on the shape and size you need; it will also help you calculate the cost of equipment and fixtures (e.g. size of counters, amount of display space, size of workrooms, etc.).

Step 2 — Direct Expenses

Direct expenses refer to those prime costs which tend to rise or change as sales increase. The principal factor is the cost of merchandise. It is important to determine what percentage of total sales is consumed with direct costs. Then you will know what percentage is "left over" to pay all other costs and return you a profit.

This step is easily completed by a retailer. The retailer's direct costs are simply the total cost of the merchandise he will buy for the year. (Table D below, shows the approximate cost of goods bought as a percentage of goods sold for various kinds of retail operations.) Calculate the percentage for your business (actual, if you are now in business; estimated, if you are just starting up). Multiply this percentage figure by your estimated sales to find the cost of goods sold.

Figure 7

Step 2 - Direct Expenses (Retail Men's Clothing)

My direct expense (cost of goods sold) will be 67% of my sales. My sales have been estimated at the following levels:

	Year 1	Year 2	Year 3
Sales	$170,000	$185,000	$200,000
Cost of Goods Sold Percentage	57%	57%	57%
Cost of Goods Sold	**$ 96,900**	**$105,450**	**$114,000**

The above direct costs have been entered on line 2 of figure 11.

Table D

Typical Gross Margins

Type of Retail Business	Approximate Gross Margin %	Cost of Goods Sold %
Auto Parts and Accessories	29	71
Books/Stationery	38	62
Men's Clothing	43	57
Women's Clothing	43	57
Drug and Sundries	29	71
Florists	52	48
Food Stores	21	79
Fuel Dealers	18	82
Furniture	32	68
Service Station	16	84
Hardware	31	69
Jewellery	46	54
Cars and Trucks	15	85
Car and Truck Repairs	48	52
Shoes	43	57
Variety Stores	29	71

Source: Dun & Bradstreet 1989 Key Business Ratios

Step 3 — Normal Operating Costs

Most of the items under this heading are the type of expenditure every business anticipates. It is wise, however, to check the list below to make sure you have not forgotten any important item(s). The list here is not exhaustive so you may also think of something else that applies to your kind of business, either exclusively or that has been omitted from the list. Figure 8 shows typical costs for one type of operation. You should enter your estimated costs in the space provided in Worksheet 1, page 25.

Salaries/Wages
- salaries (owner, managers)
- wages (employees not covered in Step 2)

Occupancy
- rent
- repair and maintenance
- business tax

General
- advertising
- delivery
- insurance
- legal and audit
- business travel
- utilities
- automobile(s)
- dues and licenses
- interest (will be calculated separately in Step 4)
- supplies
- depreciation (will be calculated separately in Step 5)
- other

Figure 8

Step 3 - Operating Costs (Retail Men's Clothing)

	Amount
Salary, Wages and Benefits	
Salary and benefits (of owner)	$15,000
Wages and benefits (3 part-time clerks)	16,000
Occupancy	
rent	14,400
repairs and maintenance	1,200
business tax	1,000
General	
advertising	3,600
automobile/delivery	2,500
dues and licences	300
insurance	2,000
interest (not calculated yet — see Step 4)	
legal and audit	2,300
supplies	800
business travel	1,800
utilities (most included in rent)	1,440
depreciation (not calculated yet — see Step 5)	
other	1,200
TOTAL	$63,540

The above normal expenses have been entered on line 4 of figure 11.

NOTE TO READER:

Figures 8 through 14 are completed with information drawn from the example of a retail men's clothing store. To do your own calculations, use Worksheets 1 to 7, which are blank forms similar to Figures 8-14. The Worksheets start on page 25.

Step 4 — Working Capital Requirements: Principal and Interest Payments

In addition to all the expenses you have estimated so far, there are also two very important items; interest and depreciation. In previous steps, you have been building up a picture of the basic costs involved and it is more than likely that you will have to borrow money to meet these expenses. This brings in the expense item of interest, which could not be introduced until you had some idea of the extent of borrowing and credit you need.

But, first, you will want to find out what your capital requirements are. To get this figure, add the estimated cost of your initial inventory, the value of your credit sales (if any) and the cost figure from Step 1 (premises, equipment and fixtures). Be sure to include the non-recurring start-up costs such as legal, initial advertising, etc.

To determine the initial investment in inventory for a retailer divide your first year sales estimate by the number of times you expect your inventory to turn over. The denominator in this calculation can be obtained by asking non competing retailers in the same or similar businesses to estimate their turnover. Since you want the answer as "inventory at cost" you must multiply this result by the factor in Table D on page 11 for your type of merchandise.

The calculation is shown below:

$$\frac{\text{Estimated Annual Sales}}{\text{Estimated Inventory Turnover Rate}} \times \text{Cost of Goods Sold \%} = \text{Initial Inventory at Cost}$$

List this amount as a working capital requirement.

Some retailers feel compelled to offer some form of their own credit, but this practice is not generally recommended. Most retailers let the banks carry this responsibility through VISA and MASTERCARD. If, however, you must offer credit, estimate the volume of credit sales and list the amount as a working capital requirement.

Once you have totalled your capital requirements, you can then determine how much you will need to borrow. This is usually a simple exercise of subtracting the amount of your own resources you can invest from total capital requirements.

Remember, lending institutions will look at the equity you are willing to commit as a sign of your confidence in the undertaking. It is not uncommon for lenders to require a substantial (25%-50%) investment in the proposed business venture by the owner as a condition of the loan. If you cannot make such an investment, your plans should be scaled down or otherwise adjusted. Ask for a copy of the publication "Small Business Management Systems — Finance Plan, which gives information on how to make your approach.

Once you have determined how much you must borrow, you can calculate your annual interest payments, based on these three factors:

1. Amount of a term loan and the amount of a line of credit.
2. Repayment period in years for the term loan.
3. Interest rate you will be charged on the term loan and the line of credit.

The accompanying table can be used to calculate the annual payment for your term loan.

Table E
Constant Payment Table

REPAYMENT PERIOD IN YEARS	INTEREST RATE 10%	12%	14%	16%	18%
5	3.791	3.605	3.433	3.274	3.127
6	4.355	4.111	3.889	3.685	3.498
7	4.868	4.564	4.288	4.039	3.812
8	5.335	4.968	4.639	4.344	4.078
9	5.759	5.328	4.946	4.607	4.303
10	6.145	5.650	5.216	4.833	4.494
15	7.606	6.811	6.142	5.575	5.092

Figure 9

Step 4 - Working Capital Requirements/Principal and Interest Payments (Retail Men's Clothing) (See Worksheet 2 at back)

- **Building, fixturing and equipment (including vehicle) (Step 1)**

Leasehold improvements (partitioning and decorating)	$ 3,500	
Company purchases my vehicle (station wagon)	6,000	
Fixtures (shelves, lights, racks, display fixtures, etc.)	10,000	
Equipment (office furniture, safe, cash register, etc.)	2,500	
Total		$22,000

- **Initial Inventory**

$$\frac{\text{Estimated Annual Sales}}{\text{Estimated Inventory Turnover Rate}} \times \text{Cost of Goods Sold \%} =$$

$$\frac{\$170,000}{3.5} \times .57 = \$27,685$$

- **Accounts Receivable**
  Although I will try to accept only cash and credit cards, a small amount of credit transactions will be necessary (10%). My terms will be net 30 days.

Value of 1 month's credit: $\frac{\$170,000}{12} \times 10\% =$ $ 1,420

- **Total cash required** $51,105
- **Minus: Personal Investment** (after filling out personal financial investment sheet) $20,000
- **Equals: Amount to be borrowed** $31,105
- **Term Loan:** $25,000 for 5 years @ 14%
  Line of Credit: $10,000 arranged @ 16%

$$\frac{\text{Term Loan}}{\text{Level Factor from Table F}} = \frac{\$25,000}{3.433} = \$7,282 \text{ annual payment}$$

- **Calculation of Interest on Term Loan**

Year	Payment	Interest* Portion	Repayment Portion	Balance
0	—	—	—	$25,000
1	7,282	3,500	3,782	21,218
2	7,282	2,971	4,311	16,907
3	7,282	2,367	4,915	11,992
4	7,282	1,679	5,603	6,389
5	7,282	893	6,389	0

- **Calculation of Annual Interest on Line of Credit***
  Maximum possible interest expense $10,000 x 16% = $1,600

- **Total Yearly Interest Expense**

Year 1 $3,500 + $1,600 = $5,100
Year 2 $2,971 + $1,600 = $4,571
Year 3 $2,367 + $1,600 = $3,967

*Interest for term loan and the time of credit have been entered on line 5 of figure 11.

Step 5 — Depreciation

Depreciation is an expense which approximates the use to which you have put your firm's assets such as equipment, machinery, leasehold improvements, etc. These assets are assigned to categories and the value of each category is depreciated yearly. The depreciation expense is based on an annual rate which will vary depending upon the asset category. The appropriate rate is applied to the undepreciated value of each asset category to obtain a dollar amount. The sum of these amounts is depreciation expense. (Note in year one a factor of ½ is applied to the normal depreciation rate.)

Specific information on your asset categories, the type of assets in each category and the appropriate depreciation rate to be used can be obtained from your local Taxation Centre.

The steps to follow are these:

1. List all fixed assets with cost of each.
2. Obtain appropriate depreciation rates (from local Taxation Office).
3. Multiply cost of assets x depreciation rate to get depreciation for each asset.
4. Total all depreciation amounts to get depreciation expense for first year.

For the second year, the amount for 1. above will be original cost less first year depreciation. The figure to be used in the third year would be original cost less depreciation for the first two years. (See example in figure 10.)

Figure 10

Step 5 - Depreciation Expense (Retail Men's Clothing) (See Worksheet 3 at back)

Year 1

Item	Cost	Depreciation Rate	Depreciation Expense	Undepreciated Value
used vehicle	$ 6,000	30%x½	$ 900	$ 5,100
leasehold improvements (5 year lease)	3,500	*	350	3,150
fixtures	10,000	20%x½	1,000	9,000
equipment	2,500	20%x½	250	2,250
	$22,000		**$2,500**	**$19,500**

Year 2

Item	Cost	Depreciation Rate	Depreciation Expense	Undepreciated Value
used vehicle	$ 5,100	30%	$1,530	$ 3,570
leasehold improvements (5 year lease)	3,150	*	630	2,520
fixtures	9,000	20%	1,800	7,200
equipment	2,250	20%	450	1,800
	$19,500		**$4,410**	**$15,090**

Year 3

Item	Cost	Depreciation Rate	Depreciation Expense	Undepreciated Value
used vehicle	$ 3,570	30%	$1,071	$ 2,499
leasehold improvements (5 year lease)	2,520	*	504	2,016
fixtures	7,200	20%	1,440	5,760
equipment	1,800	20%	360	1,440
	$15,090		**$3,375**	**$11,715**

* *Leashold improvements are depreciated by an equal amount each year in the life of the 5 year lease. Year 1 is again an exception. The above depreciation expenses have been entered in line 6 of figure 11.*

Section 3 — Profitability

If you have been completing the various steps for your own Business Plan as the method has unfolded, you will have done a lot of work and you will also have a more intimate knowledge of your venture.

In this section, the following important questions will be answered:

1. Is my venture going to be profitable? (Is my Net Profit after Tax positive?)
2. What will my cash flow be like during the first year?
3. At what point during the first year can I expect the tightest cash flow period?

Although the answer to the first question is obviously important, too often the answers to the second and third questions are taken too lightly or ignored. A cash flow projection is a forecast of the revenues and expenses you will experience in the first year of operation. This projection focuses on your bank account. It is not uncommon for a small business to be earning a decent profit yet be struggling because of a cash shortage.

This cash flow projection is a technique that can be used as an early warning system to indicate a potential problem before it becomes a crisis. Should your cash flow projection forecast such a situation, you can secure the necessary resources to deal with the problem or adjust your practices to cope with it.

Step 1 — Yearly Income Projections

At this stage, it might be wise to review all your calculations to date to make sure that there are no errors.

Now, transfer the numbers you have obtained to the appropriate lines in Worksheet 4.

(a) Enter Gross Sales figures for each of the next three years. (Section 1, Step 4, Page 8)

(b) Enter Direct Costs (Section 2, Step 2, Page 11) for all three years.

(c) Subtract (b) from (a) to obtain your Gross Profit for each year.

Next,

(d) For each year, fill in:
- (i) normal operating costs (Section 2, Step 3, Page 12);
- (ii) interest payments (both term and line of credit for first year) (section 2, Step 4, Page 14);
- (iii) depreciation expense (Section 2, Step 5, Page 15).

(e) Total the amounts in (d).

(f) Subtract total in (e) from Gross Profit (c) to get Net Profit before Taxes.

(g) Estimate Income Taxes.

(h) Subtract Income Taxes (g) from Net Profit before Taxes (f) to obtain Net Profit **after** Taxes.

Figure 11

Projected Income Statement (Retail Men's Clothing) (See Worksheet 4)

Line	Item	Section	Step	Page	Year 1	Year 2	Year 3
1	*Sales Method A Method B	1 1	1-4	6-8 9	$170,000	$185,000	$200,000
2	Direct Costs	2	2	11	96,900	105,450	114,000
3	**Gross Profit** (line 1 minus line 2)				$ 73,100	$ 79,550	$ 86,000
4	Normal Operating Expenses	2	3	12	63,540	67,988	72,747
5	Interest Term Loan	2	4	14	3,500	2,971	2,367
	Line of Credit	2	4	14	1,600	1,600	1,600
6	Depreciation	2	5	15	2,500	4,410	3,375
7	**Total Expenses** (line 4-6)				$ 71,140	$ 76,969	$ 80,089
8	Net Profit (line 3 minus line 7)				1,960	2,581	5,911
9	Income Taxes (28%)				549	723	1,655
10	**Net Profit After Taxes** (line 8 minus line 9)				**$ 1,411**	**$ 1,858**	**$ 4,256**

**Figures are conservatively estimated from results of Methods A and B.*

Step 2 — Cash Flow Projections

To chart your cash flow position in each month of your first year, set up a system for recording your cash receipts and disbursements (see Worksheet 5). Using this form, you will be able to pinpoint the times during the year when cash will be tight. You have already gathered the information necessary to complete this cash flow projection.

Your cost estimates are recorded in Steps 1-5 of Section 2. Your sales estimate is recorded on figure 11, page 17. The distribution of this sales total to each month of the year and to the cash and credit options will be made easier by the answers to the following questions:

1. How are sales distributed over the seasons and months of the year?
2. What percentage of your annual sales are cash, credit card or receivable?

You have already collected the answers to these questions in Section 1, Method B.

Section 3 — Profitability

Figure 12

Cash Flow Projection (Retail Men's Clothing) (See Worksheet 5 at back)

		Month 1	Month 2	Month 3	Month 4	Mont
1.	**Receipts**					
2.	Total Sales	9,380	8,338	11,899	13,549	15,3
3.	Cash Sales*	8,442	7,504	10,709	12,194	13,8
4.	Sales on Account	938	834	1,190	1,355	1,5
5.	Collections on Acct. (50% in 30 days)		469	417	595	6
6.	Collections on Acct. (remaining 50%)			469	417	5
7.	Total Receipts ADD ROW3 + R5 + R6	8,442	7,973	11,595	13,206	15,1
8.	**Disbursements**					
9.	Purchases**	27,685	5,347	4,753	6,782	7,7
10.	Owner's Drawings	1,250	1,250	1,250	1,250	1,2
11.	Payroll — Gross	883	785	1,120	1,275	1,4
12.	Rent	1,200	1,200	1,200	1,200	1,2
13.	Repairs & Maintenance	100	100	100	100	
14.	Business Tax	1,000				
15.	Advertising	1,200	900	500	100	
16.	Automobile	125	125	825	275	
17.	Delivery					
18.	Dues & Licenses	300				
19.	Insurance	1,000				
20.	Interest	425	425	425	425	4
21.	Legal & Audit	400		400		
22.	Supplies	250	50	50	50	
23.	Business Travel			600		6
24.	Utilities	120	120	120	120	
25.	Depreciation (Non cash expense)					
26.	Other	100	100	100	100	
27.	Total Disbursements ADD R9 to R26	36,038	10,401	11,443	11,678	13,3
28.	**Cash from Operations R7-R27**	(27,596)	(2,428)	152	1,528	1,7
29.	**Cash Total — Start of Period*** **	45,000	5,089	2,346	2,183	3,3
30.	Total Cash — Surplus (Def) R29-R28	17,404	2,661	2,498	3,712	5,
31.	**Payments Asset Purchases**	22,000				
32.	Loan Repayments (Principal Portion)	315	315	315	315	
33.	**Receipts Equity Increase**	0				
34.	Line of Credit	10,000				
35.	**Cash Total End of Period R30 – R31 – R32 + R33 + R34**	5,089	2,346	2,183	3,397	4,

**Cash sales - represent only 90% of monthly sales - 10% are on account.*

***Purchases - for first month is initial inventory.*

****Cash Total - Start of Period includes your investments and the bank's term loan.*

nth 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total
,338	11,899	13,549	15,380	13,983	12,420	13,809	15,373	13,983	18,673	23,213	170,000
,504	10,709	12,194	13,842	12,585	11,178	12,428	13,836	12,585	16,806	20,892	153,000
834	1,190	1,355	1,538	1,398	1,242	1,381	1,537	1,398	1,867	2,321	17,000
469	417	595	677	769	699	621	690	769	699	934	7,339
	469	417	595	677	769	699	621	690	769	699	6,406
,973	11,595	13,206	15,114	14,031	12,646	13,748	15,147	14,044	18,274	22,525	166,745
,347	4,753	6,782	7,723	8,767	7,970	7,079	7,871	8,763	7,970	10,644	111,354
,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	15,000
785	1,120	1,275	1,448	1,316	1,169	1,300	1,447	1,316	1,757	2,185	16,000
,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	14,400
100	100	100	100	100	100	100	100	100	100	100	1,200
											1,000
900	500	100	200	100	100	100	100	100	100	100	3,600
125	825	275	125	125	125	125	125	275	125	125	2,500
											0
											300
					1,000						2,000
425	425	425	425	425	425	425	425	425	425	425	5,100
	400									1,500	2,300
50	50	50	50	50	50	50	50	50	50	50	800
	600		600				600				1,800
120	120	120	120	120	120	120	120	120	120	120	1,440
											0
100	100	100	100	100	100	100	100	100	100	100	1,200
,401	11,443	11,678	13,340	13,553	13,609	11,849	13,388	13,699	13,198	17,798	179,994
428)	152	1,528	1,774	479	(963)	1,899	1,759	345	5,076	4,726	(13,249)
089	2,346	2,183	3,397	4,856	5,018	3,740	5,324	6,768	6,799	11,559	45,000
661	2,498	3,712	5,171	5,334	4,055	5,639	7,083	7,114	11,874	16,285	31,751
											22,000
315	315	315	315	316	315	315	315	315	315	316	3,782
											0
											10,000
346	2,183	3,397	4,856	5,018	3,740	5,324	6,768	6,799	11,559	15,969	15,969

Section 4 — Feasibility

Now it's decision time!

Should you go ahead with your venture? Does your dream or plan need to be adjusted or altered to ensure success?

You will probably have a strong sense of the right answer by now if you have diligently completed all the steps set out here. You may still however be a bit uncertain or apprehensive. The following steps are offered as a means of helping you confirm your decision.

Step 1 — Break-Even Sales

"Break-Even Sales" is the volume of sales necessary to cover all expenses. Once calculated, it should represent the minimum acceptable sales level for the first year. It is a "floor". If sales drop below this level you will be losing money. The "Break-Even Sales" figure is important when you are trying to decide whether your business will survive its first (and usually most difficult) year. It is a signal that warns you of the risk you may be taking.

To obtain your "Break-Even Sales" figure, follow these steps:

1. Divide your expected gross profit in Year 1 by your sales in Year 1. This will give you your Gross Profit Percentage.
2. Divide the Gross Profit Percentage into Yearly Operating Expenses (total of Section 2, Steps 3, 4 and 5). This will give you your "Break-Even Sales".

Figure 13

Break-Even Sales Calculation (Retail Men's Clothing) (See Worksheet 6 at back)

Year 1 Gross Profit $ 73,100

Year 1 Estimated Sales $170,000

$$\text{Gross Profit Percentage} = \frac{\text{Gross Profit Year 1}}{\text{Sales Year 1}} = \frac{\$73{,}100}{\$170{,}000} = 43\%$$

Total Operating Expenses Year 1 $71,140

$$\text{Break-Even Sales} = \frac{\text{Total Operating Expenses Year 1}}{\text{Gross Profit Percentage}} = \frac{\$71{,}140}{.43} = \$165{,}442$$

Step 2 — Return on Owner's Investment

Return on Owner's Investment shows the earnings potential. It is expressed as a percentage so that it can be compared with other possible avenues of investment you might be considering. It represents a monetary or dollar factor. In comparing an investment in your own business with investing in someone else's enterprise (e.g. buying stocks or bonds, becoming a silent partner, etc.), there are factors other than monetary to be considered such as personal independence, challenge, security, responsibility.

To calculate your Return on Owner's Investment, follow these steps:

1. Divide Net Profit after Taxes by the amount of your Owner's Investment and multiply by 100. This will give you the Return on Investment percentage for year one.
2. To calculate this for year two (and three), add Net Profit after Taxes for year one to the Owner's Investment and follow procedure as in 1. above.

$$\frac{\text{Net Profit After Taxes (Year Two)}}{\text{Owner's Investment + Net Profit After Taxes (Year One)}} \times 100 = \text{Return on Investment (Year Two)}$$

Figure 14

Return on Owner's Investment Calculation (Retail Men's Clothing) (See Worksheet 7 at back)

	Year 1	Year 2	Year 3
Net Profit After Tax	1,411	1,858	4,256
Owner's Investment*	20,000	21,411	23,270
Return on Investment	0.071	0.087	0.183

**Net profit after tax is added to actual investment to generate owner's investment for the next year.*

Conclusion
The rate of return on my investment is adequate. The cash flow projection also indicated a favourable situation. Even though my salary would be between $15,000 and $18,000 during these three years, my decision is to GO AHEAD.

Conclusion

At this point, if you have followed the steps recommended on the preceding pages, you will know or at least better appreciate the following:

- The likelihood of attaining your "Break-Even Sales" level and, therefore, the dollar value of the risk you will be taking.
- The approximate return on the money you intend to invest, and therefore, the degree of attractiveness of your investment.
- The cash flow implications of getting into this kind of business.
- The chances of being able to "sell" other investors or financial institutions on backing your Plan.

If you make a Business Plan, following the steps outlined here, you will have a most effective instrument to support you in seeking financial support. It will help you explain your proposal. Its systematic, common-sense approach will impress bankers and other sources of financial backing. It will give suppliers more confidence.

If your Business Plan now says, "Go Ahead!", you should tidy it up, have it typed if possible, make a few copies and put them in attractive binders or folders (available from office supply stores) and set out to call on those whose help you need to launch your business. This approach is also suited to the situation where you are seeking support for expansion, re-financing, increased inventories, etc.

If, on the other hand, your Business Plan says, "Hold It!", don't give up immediately. Be thankful you have been warned of possible disaster. Then, go back over the whole Plan and the idea it supports. Can you make changes or adjustments, cut back on something, be a little less ambitious for the early years? It is unusual if a Business Plan comes out perfectly the first time around.

Be realistic yet imaginative. Hard-headed yet daring. Cautious yet confident.

In Closing

This and other Business Plan formats, with examples and explanations, have been published by the Business Resource Centre to help and encourage Manitobans who wish to embark on business ventures in the manufacturing, retail, service and construction fields. If you would like to discuss your Business Plan or have problems and questions related to its preparation, feel free to call the Centre and arrange to meet with one of the counsellors.

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Appendix I

TABLE 4. Summary and Selective Detailed Family Expenditure by Region and Province, Canada, 10 Provinces, 1986

All Families and Unattached Individuals

		Region and province — Région et la province													
		All classes Toutes catégories		Ontario		Prairie provinces Provinces des Prairies		Manitoba		Saskatchewan		Alberta		British Columbia Colombie-Britannique	
		Av. per fam. Moy. par fam.	% rptg. % décl.	Av. per fam. Moy. par fam.	% rptg. % décl.	Av. per fam. Moy. par fam.	% rptg. % décl.	Av. per fam. Moy. par fam.	% rptg. % décl.	Av. per fam. Moy. par fam.	% rptg. % décl.	Av. per fam. Moy. par fam.	% rptg. % décl.	Av. per fam. Moy. par fam.	% rptg. % décl.
2200-2283	**Household operation**	**1525**	**99.9**	**1632**	**99.9**	**1576**	**99.7**	**1356**	**100.0**	**1489**	**99.0**	**1712**	**99.9**	**1541**	**100.0**
2200-2205	Communications	486	99.0	511	98.9	537	98.6	426	99.3	541	96.8	585	99.1	570	99.5
2200-2204	Telephone	448	98.3	468	98.3	494	98.3	383	98.4	501	96.3	542	99.1	522	98.9
2201-2204	Telephone services	438	98.3	459	98.3	485	98.3	375	98.4	497	96.3	530	99.1	511	98.9
2202	Basic charge	162	96.4	168	96.6	133	96.1	117	97.1	127	94.2	144	96.5	159	96.0
2204	Long distance toll charges	283	88.8	276	90.2	338	91.1	248	90.0	357	88.8	371	92.6	341	91.3
2210-2213	Child care	198	16.2	198	14.2	207	19.5	184	18.0	158	18.0	239	20.8	147	14.2
2230-2234	Pet expenses	147	46.5	162	47.2	153	47.9	129	41.9	122	42.8	177	52.8	180	51.7
2240-2250	Household cleaning supplies	230	98.4	241	99.1	247	97.3	222	99.7	250	98.9	256	95.5	186	98.5
2260-2268	Paper, plastic & foil household supplies	231	99.4	247	99.4	228	99.2	206	100.0	234	99.0	236	99.0	215	99.0
2300-2498	**Household furnishings and equipment**	**1278**	**93.9**	**1397**	**95.0**	**1248**	**95.8**	**1157**	**96.0**	**1237**	**95.2**	**1293**	**95.9**	**1192**	**93.2**
2300-2344	Household furnishings	634	81.1	706	83.1	600	83.2	557	80.5	581	84.8	629	83.8	607	79.2
2300-2318	Furniture	389	49.1	437	51.8	372	51.7	350	50.1	348	49.8	393	53.3	380	47.0
2320-2329	Household textiles & related materials	156	71.4	162	73.1	142	72.7	129	67.5	152	75.0	145	74.1	162	67.1
2360-2483	Household equipment	577	90.1	612	91.8	583	92.6	532	92.7	599	91.7	599	92.9	525	90.2
2360-2403	Household appliances	283	61.2	295	64.2	265	63.7	261	63.6	283	61.6	259	64.6	261	61.6
2490-2498	Services related to furnishings & equipment	67	48.7	79	57.1	64	49.9	68	49.2	57	48.9	65	50.6	60	49.3
2500-2879	**Clothing**	**2215**	**99.5**	**2410**	**99.5**	**2171**	**99.7**	**1913**	**98.9**	**2103**	**99.7**	**2316**	**100.0**	**1897**	**99.6**
2500-2583	Women's wear (14 years & over)	1109	87.8	1207	88.5	1079	88.3	933	87.6	1033	88.0	1165	88.8	929	84.3
2590-2663	Girl's wear (4-13 years)	95	15.9	92	14.8	102	16.6	85	14.2	101	17.8	111	17.2	76	14.7
2670-2753	Men's wear (14 years & over)	688	79.5	749	80.3	673	79.8	596	78.2	692	78.5	699	81.0	605	79.6
2760-2813	Boy's wear (4-13 years)	83	17.2	82	16.8	87	17.8	84	17.1	87	17.8	87	18.1	85	15.0
2820-2850	Infants' wear (under 4 years)	34	12.6	35	12.4	37	14.8	32	14.3	33	12.7	41	15.9	22	11.1
2860-2879	Clothing material, notions & services	206	91.8	244	94.5	193	91.1	183	91.8	157	88.0	213	92.1	200	92.6
2870-2879	Clothing services	148	86.1	186	89.9	132	85.0	127	85.0	99	80.3	149	87.0	133	86.6
2872-2874	Laundry & dry-cleaning	112	80.8	147	85.1	100	80.3	96	81.9	75	75.9	113	81.5	102	82.5
2900-2965	**Transportation**	**4656**	**98.2**	**5157**	**99.1**	**4707**	**98.4**	**4333**	**97.8**	**4273**	**98.8**	**5060**	**98.4**	**4377**	**99.0**
2900-2946	Private transportation	4235	85.0	4636	85.3	4309	88.9	3911	85.9	3995	89.9	4622	89.8	3855	89.4
2900-2904	Purchase of automobiles & trucks	1953	28.2	2218	28.5	1974	31.7	1715	29.6	1828	29.2	2154	33.6	1510	28.0
2930-2946	Operation of automobiles & trucks	2162	84.1	2280	84.2	2206	88.5	2126	85.2	2099	89.8	2288	89.4	2214	88.2
2930	Automotive fuels	991	80.4	998	80.5	1066	84.7	1043	79.7	1034	84.2	1090	87.2	980	85.9
2935-2939	Maintenance & repair jobs	333	74.0	362	74.9	358	79.6	353	75.8	321	79.5	376	81.3	349	76.4
2944	Private & public insurance premiums	526	80.0	616	80.4	442	84.0	408	79.3	383	82.5	483	86.8	585	85.6
2950-2965	Public transportation	421	75.6	519	80.9	398	74.5	423	79.0	277	63.7	438	77.0	522	85.9
2950-2954	Local & commuter transportation	162	63.6	205	69.0	99	58.4	118	61.3	63	48.6	106	61.2	146	70.1
2960-2965	Inter-city transportation	259	42.3	314	44.8	299	51.7	305	51.3	215	44.3	332	55.0	376	61.4
2961	Air	211	21.8	265	23.9	253	29.1	260	30.3	172	19.6	284	32.7	290	31.6
3000-3063	**Health care**	**648**	**95.9**	**683**	**95.3**	**654**	**97.5**	**546**	**98.0**	**524**	**98.3**	**757**	**97.0**	**707**	**97.6**
3000-3053	Direct costs to family	430	94.5	435	94.1	441	96.2	424	97.7	412	97.2	461	95.1	438	95.7
3001-3002	Medicinal & pharmaceutical products	129	88.1	116	86.2	146	92.8	157	94.7	136	94.3	146	91.2	133	88.9
3040-3042	Dental care	159	47.7	179	47.4	143	46.3	130	48.4	131	45.5	153	45.6	186	48.0
3060-3063	Health insurance premiums	218	54.9	248	52.8	213	66.3	123	54.1	112	66.5	297	71.8	269	70.8
3060	Public hospital & medical plans	89	26.1	152	35.0	79	33.5	...	...	...	...	147	62.3	172	63.2
3061-3063	Private health care plans	129	41.6	97	35.9	134	52.7	122	53.8	112	66.1	149	46.5	97	31.2
3100-3153	**Personal care**	**679**	**99.8**	**720**	**99.9**	**684**	**99.7**	**610**	**100.0**	**631**	**100.0**	**741**	**99.4**	**604**	**99.9**
3100-3140	Personal care supplies & equipment	438	99.7	467	99.7	463	99.4	407	99.6	423	100.0	505	99.1	398	99.8
3100-3114	Toilet preparations & cosmetics	264	98.9	280	99.1	287	98.5	242	99.3	258	98.2	320	98.3	236	98.5
3150-3153	Personal care services	241	93.2	253	94.2	222	93.1	204	92.3	208	92.9	236	93.6	207	92.0
3200-3370	**Recreation**	**1771**	**95.9**	**1920**	**96.4**	**2008**	**97.2**	**1773**	**96.1**	**1957**	**95.1**	**2136**	**98.5**	**1809**	**97.4**
3200-3271	Recreation equipment & associated services	449	83.1	489	84.2	522	87.9	435	83.4	475	85.6	581	90.9	457	85.6
3210-3229	Toys, games & hobby equipment	141	56.1	148	57.0	157	62.8	121	58.0	157	59.6	173	68.4	154	55.8
3230-3236	Photographic goods & services	119	70.0	137	72.9	136	77.3	126	74.3	132	73.2	142	80.4	135	74.5
3280-3298	Recreation vehicles & outboard motors	305	36.1	309	34.1	373	42.8	348	42.0	485	45.0	337	42.2	257	39.2
3280-3289	Purchase of recreation vehicles	197	21.3	193	20.8	263	23.4	232	21.9	370	25.6	232	23.2	97	21.0
3301-3319	Home entertainment equipment & services	388	78.2	419	77.9	419	80.8	383	74.7	383	78.3	450	84.5	400	77.6
3320-3370	Recreation services	630	88.9	702	90.5	694	91.9	608	92.0	614	88.5	767	93.4	696	94.2
3320-3326	Spectator-entertainment performances	210	82.3	229	85.0	226	84.9	183	85.4	178	78.0	266	87.7	237	88.0
3330-3350	Use of recreation facilities	193	64.9	210	66.4	216	73.8	180	69.8	184	72.6	245	76.0	253	76.3
3360-3361	Package travel tours	180	10.5	220	11.9	162	10.9	178	10.5	117	8.6	174	12.0	154	9.8

Source: Statistics Canada Table 4 Catalogue No. 62-555-1986

TABLE 5: Summary and Selective Detailed Family Expenditure by City, Canada, 1986

All Families and Unattached Individuals

	Winnipeg			Winnipeg	
	Av. per fam. Moy. par fam.	% rptg. % decl.		Av. per fam. Moy. par fam.	% rptg. % decl.
Food	4747	100.0	**Personal care**	617	100.0
Food purchased from stores	3359	100.0	Personal care supplies & equipment	398	99.4
Food purchases from restaurants etc	1373	97.3	Toilet preparations & cosmetics	241	98.9
			Personal care services	220	92.2
Shelter	5596	99.5			
Principal accommodation	5327	99.5	**Recreation**	1742	97.3
Rented living quarters	1865	44.7	Recreation equipment & associated services	419	82.6
Rent	1828	44.7	Toys, games & hobby equipment	128	54.8
Owned living quarters	2579	59.3	Photographic goods & services	138	74.6
Maintenance, repairs & replacements	410	43.8	Recreation vehicles & outboard motors	304	34.6
Contract and labour cost	279	24.0	Purchases of recreation vehicles	187	17.1
Materials	132	34.5	Home-entertainment equipment & services	382	78.1
Property taxes	780	59.1	Recreation services	637	94.9
Homeowners Insurance premiums	149	58.3	Spectator-entertainment performances	201	89.5
Mortgage interest	984	31.8	Use of recreation facilities	178	70.5
Water, fuel and electricity	882	82.1	Package travel tours	192	12.3
Water	111	61.4			
Fuel oil and other liquid fuel			**Reading materials & other printed matter**	297	93.9
Piped gas	401	59.7			
Electricity	344	81.3	**Education**	328	43.3
Other accommodation	270	49.2	Tuition fees	218	26.6
Traveller accommodation	128	40.6			
			Tobacco products & alcoholic beverages	1061	89.5
Household operation	1327	100.0	Tobacco products & smokers' supplies	439	48.9
Communications	419	99.1	Cigarettes	402	46.0
Telephone	379	98.9	Alcoholic beverages	622	83.5
Telephone services	368	98.9	Served on licensed premises	242	64.5
Basic charge	132	97.5	Purchased from stores	380	80.7
Long distance toll charges	224	87.7			
Child care	199	16.1	**Miscellaneous**	904	94.0
Pet expenses	112	37.5	Interest on personal loans	349	51.5
Household cleaning supplies	194	99.5	Dues to unions & professional associations	125	39.9
Paper, plastic & foil household supplies	198	100.0	Government-run pool & lottery tickets	127	68.4
Household furnishings and equipment	1180	95.3	**Personal taxes**	5138	96.1
Household furnishings	604	81.8			
Furniture	374	52.7	**Security**	1613	79.3
Household textiles & related materials	139	67.5	Life insurance premiums	207	45.8
Household equipment	481	91.7	Unemployment insurance premiums	455	72.8
Household appliances	234	64.7	Retirement & pension fund payments	941	74.8
Services related to furnishings & equip.	76	53.2	Canada & Quebec pension plan	350	74.8
			Other government	353	18.8
Clothing	1950	98.9	Other (excluding RRSP)	238	20.0
Women's wear (14 years & over)	986	85.9			
Girls' wear (4-13 years)	82	13.9	**Gifts and contributions**	1340	94.9
Men's wear (14 years & over)	620	76.7	Persons outside spending unit	1052	91.4
Boys' wear (4-13 years)	61	14.0	Money gifts and contributions	624	49.3
Infants' wear (under 4 years)	28	12.9	Other gifts, eg. flowers, clothing, toys	428	78.8
Clothing material, notions & services	193	93.0	Charitable organizations	288	74.4
Clothing services	140	89.2	Religious organizations	196	42.7
Laundry & dry cleaning	109	85.7	Other charitable organizations	93	63.2
Transportation	4385	99.5	**Total current consumption**	24484	100.0
Private transportation	3739	84.3			
Purchase of automobiles & trucks	1655	28.8	**Total expenditure**	32554	100.0
Operation of automobiles & trucks	2003	63.6			
Automobile fuels	916	77.4	**Total value of items not purchased**	397	81.1
Maintenance & repair jobs	375	72.9	Value of food not purchased	41	29.6
Private & public insurance premiums	429	77.1	Value of gifts received	356	78.7
Public transportation	526	89.8			
Local & commuter transportation	169	81.6	**Selected items in net change in assets:**		
Inter-city transportation	357	50.7	Registered retirement savings plans	558	24.0
Air	308	31.2	Change in principal of mortgage on home	453	32.0
			Additions, renovations etc. to home	627	26.7
Health care	560	98.3			
Direct costs to family	427	97.8			
Medicinal & pharmaceutical products	148	95.1			
Dental care	155	51.8			
Health insurance premiums	133	58.5			
Public hospital & medical plans	...	...			
Private health care plans	132	58.0			

Worksheet 1

Operating Costs
(see Figure 8, page 12)

	Amount
Salary, Wages and Benefits	
salary and benefits (of owner)	
wages and benefits (3 part-time clerks)	
Occupancy	
rent	
repairs and maintenance	
business tax	
General	
advertising	
automobile/delivery	
dues and licenses	
insurance	
interest	
legal and audit	
supplies	
business travel	
utilities (most included in rent)	
depreciation	
other	
TOTAL	

Worksheet 2

Working Capital Requirements/ Principal and Interest Payments (see Figure 9, page 14)

- **Building, fixturing and equipment (including vehicle) (Step 1)**
  Leasehold improvements (partitioning and decorating) _____
  Company purchases my vehicle (station wagon) _____
  Fixtures (shelves, lights, racks, display fixtures, etc.) _____
  Equipment (office furniture, safe, cash register, etc.) _____
  Total _____ _____

- **Initial Inventory**
  (Stock sales ratio) x $\frac{\text{Estimated annual Sales}}{12}$ x % Cost of Goods Sold

  _____ x $\frac{\text{_____}}{12}$ x _____ = _____

- **Accounts Receivable**
  Although I will try to accept only cash and credit cards, a small amount of credit transactions will be necessary (10%). My terms will be net 30 days.
  Value of 1 month's credit: $\frac{\text{(Annual sales)}}{12}$ x (Interest rate)

  $\frac{\text{_____}}{12}$ x _____ = _____

- **Total cash required** _____
- **Minus: Personal Investment** (after filling out personal financial investment sheet) _____
- **Equals: Amount to be borrowed** _____
- **Term Loan** _____
  Line of Credit: _____

  $\frac{\text{Term Loan}}{\text{Level Factor from Table F}}$ = _____ = _____ (annual payment)

- **Calculation of Interest on Term Loan**

Year	Payment	Interest Portion	Repayment Portion	Balance
0				
1				
2				
3				
4				
5				

- **Calculation of Annual Interest on Line of Credit**
  Maximum interest expense = $_____ x _____% = _____

- **Total Yearly Interest Expense**
  Year 1 _____ + _____ = _____
  Year 2 _____ + _____ = _____
  Year 3 _____ + _____ = _____

Worksheet 3

Depreciation Expense
(see Figure 10, page 15)

Year 1

Item	Cost	Depreciation Rate	Depreciation Expense	Undepreciated Value
used vehicle				
leasehold improvements (5 year lease)				
fixtures				
equipment				
TOTAL				

Year 2

Item	Undepreciated Value	Depreciation Rate	Depreciation Expense	Undepreciated Value
used vehicle				
leasehold improvements				
fixtures				
equipment				
TOTAL				

Year 3

Item	Undepreciated Value	Depreciation Rate	Depreciation Expense	Undepreciated Value
used vehicle				
leasehold improvements				
fixtures				
equipment				
TOTAL				

Worksheet 4

Projected Income Statement
(see Figure 11, page 17)

Line	Item	Section	Step	Page	Year 1	Year 2	Year 3
1	*Sales Method A	1	1-4	8	$	$	$
	Method B	1	1	9			
2	Direct Costs	2	2	11			
3	**Gross Profit** (line 1 minus line 2)				$	$	$
4	Normal Operating Expenses	2	3	12			
5	Interest Term Loan	2	4	14			
	Line of Credit	2	4	14			
6	Depreciation	2	5	15			
7	**Total Expenses** (lines 4-6)				$	$	$
8	Net Profit (line 3 minus line 7)						
9	Income Taxes (28%)						
10	**Net Profit After Taxes** (line 8 minus line 9)				$	$	$

Worksheet 5

Cash Flow Projection

		Month 1	Month 2	Month 3	Month 4	Month
Receipts	Cash Sales					
	Collections on Account					
	Other Income					
	Total Receipts					
Disbursements	Purchases					
	Owner's Drawings					
	Payroll — Gross					
	Rent					
	Repairs & Maintenance					
	Business Tax					
	Advertising					
	Automobile					
	Delivery					
	Dues & Licenses					
	Insurance					
	Interest					
	Legal & Audit					
	Supplies					
	Business Travel					
	Utilities					
	Depreciation					
	Other					
	Total Disbursements					
Cash from Operations						
Cash Total — Start of Period						
	Total Cash — Surplus (Deficit)					
Other Payments	Asset Purchase					
	Equity Withdrawals					
	Loan Repayments					
	Total Other Payments					
	Total Cash — Surplus (Deficit)					
Other Receipts	Equity Increase					
	Loan Proceeds					
	Sales of Assets					
	Total Other Receipts					
	Cash Total — End of Period					

h 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total

Worksheets 6 & 7

Break-Even Sales Calculation
(see Figure 13, page 20)

Year 1 Gross Profit _____

Year 1 Estimated Sales _____

Gross Profit Percentage = $\frac{\text{Gross Profit Year 1}}{\text{Sales Year 1}}$ = _____ = _____

Total Operating Expenses Year 1 _____

Break-Even Sales = $\frac{\text{Total Operating Expenses Year 1}}{\text{Gross Profit Percentage}}$ _____ = _____

Return on Owner's Investment Calculation
(see Figure 14, page 21)

	Year 1	Year 2	Year 3
Net Profit After Tax			
Owner's Investment*			
Return on Owner's Investment			

Conclusion:

**Net profit after tax is added to actual investment to generate owner's investment for the next year.*